

C. DUKES SCOTT
EXECUTIVE DIRECTOR

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DAN E. ARNETT
CHIEF OF STAFF

November 21, 2007

Via Hand Delivery and E-Filing

Mr. Charles Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, SC 29211

Re: Application of South Carolina Electric & Gas Company for Adjustments in the
Company's Electric Rate Schedules and Tariffs
Docket No. 2007-229-E

Dear Mr. Terreni:

Enclosed please find the South Carolina Office of Regulatory Staff's Proposed Order. Specifically, I want to call to your attention that the documents referenced as Order Exhibit No. 1 in the Proposed Order are not attached but will be provided upon request.

Sincerely yours,

Nanette S. Edwards
Nanette S. Edwards

cc: Mr. Frank Knapp, Jr.
Scott Elliott, Esquire
David J. Black, Esquire
Kurt J. Boehm, Esquire
Michael L. Kurtz, Esquire
Audrey Van Dyke, Esquire
Khojasteh (Kay) Davoodi, Esquire
Eric J. Krathwohl, Esquire
Belton T. Zeigler, Esquire
Catherine D. Taylor, Esquire
K. Chad Burgess, Esquire
Mitchell Willoughby, Esquire

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-229-E – ORDER NO. 2007-____
December __, 2007

Application of South Carolina Electric &)
Gas Company for Adjustments and)
Increases in the Company's Electric Rate)
Schedules and Tariffs)
_____)

PROPOSED ORDER APPROVING
SETTLEMENT AGREEMENT AND
INCREASE IN RATES AND CHARGES

This matter is before the Public Service Commission of South Carolina (“Commission”) on the Application (“Application”) of South Carolina Electric & Gas Company (“SCE&G” or “the Company”) filed June 15, 2007 for adjustments in the Company’s electric rate schedules and tariffs and for an extension until December 31, 2015 for the period over which SCE&G may apply the accelerated capital recovery mechanism to its Cope Generating Station that was originally approved by the Commission in Docket No. 1999-389-E, Order No. 1999-655. The Application was filed pursuant to S.C. Code Ann. § 58-27-860 (Supp. 2006) and 26 S.C. Code Ann. Regs. 103-823 (S.C. Reg. Vol. 31, Issue 4, April 27, 2007).

The Company’s electric rates and tariffs were last approved by the Commission in Docket No. 2004-178-E, Order No. 2005-2 issued on January 6, 2005 wherein the Commission ordered an increase in annual retail revenues of \$41.353 million for the Company.¹ The rates and tariffs requested in the Company’s Application in the present docket would produce an increase in annual retail revenues of \$118.088 million and provide a return on common equity of 11.75 percent.

¹ Exclusive of changes resulting from fuel cost reviews.

On June 26, 2007, the Commission's Docketing Department instructed the Company to publish a Notice of Filing and Hearing in newspapers of general circulation in the area affected by the Company's Application by August 15, 2007. The Notice of Filing and Hearing indicated the nature of the Company's Application and advised all interested Parties desiring participation in the scheduled proceeding of the manner and time in which to file appropriate pleadings. The Company was also required to notify directly all customers affected by the proposed rates and tariffs. On August 9, 2007, the Company filed with the Commission affidavits demonstrating that the Notice was duly published in accordance with the Docketing Department's instructions and certified that a copy of the Notice was mailed to each affected customer.

The Federal Executive Agencies ("FEA") represented by Audrey Van Dyke, Esquire filed a Petition to Intervene on July 20, 2007. CMC Steel South Carolina ("CMC Steel") represented by E. Wade Mullins, III, Esquire and Damon E. Xenopoulos, Esquire filed a Petition to Intervene on July 23, 2007. CMC Steel subsequently filed a request to withdraw from the matter on October 11, 2007. CMC Steel's request was granted by the Commission on November 2, 2007 in Order No. 2007-781. The South Carolina Energy Users Committee ("SCEUC") represented by Scott Elliott, Esquire filed a Petition to Intervene on July 24, 2007. Wal-Mart Stores East, LP ("Wal-Mart") represented by J. David Black, Esquire and Eric J. Krathwohl, Esquire filed a Petition to Intervene on July 26, 2007. The Kroger Company ("Kroger") represented by Michael L. Kurtz, Esquire and Kurt J. Boehm, Esquire filed a Petition to Intervene on July 31, 2007. Frank Knapp, Jr. filed a Petition to Intervene on August 20, 2007. The aforementioned Petitions to Intervene were not opposed. The Office of Regulatory Staff ("ORS"), automatically a party pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2006), was represented by Nanette S. Edwards, Esquire and Shannon Bowyer Hudson, Esquire. SCE&G

was represented by K. Chad Burgess, Esquire, Mitchell Willoughby, Esquire, and Belton T. Zeigler, Esquire. Collectively, the FEA, SCEUC, Wal-Mart, Kroger, Frank Knapp, Jr., ORS and SCE&G are referred to as “the Parties” or individually as a “Party.”

ORS examined the books and records of the Company relative to the matters raised in the Company’s Application.

On October 24, 2007, ORS on behalf of the Parties, informed the Commission via an Explanatory Brief and Motion for Settlement Hearing and Adoption of Settlement Agreement (“Motion for Adoption of Settlement Agreement”) that all Parties had entered into a comprehensive Settlement Agreement (“Settlement”). The Settlement and Settlement Appendices A and B are attached hereto as Order Exhibit No. 1 and incorporated herein by this reference. Settlement Appendix A consists of an Errata Sheet showing corrections for the prefiled direct testimonies of SCE&G witnesses Kevin B. Marsh, Stephen A. Byrne, and James E. Swan, IV. Settlement Appendix B consists of the settlement rate schedules. Settlement Attachment A consists of Settlement testimonies of SCE&G witness Jimmy E. Addison, SCEUC witness David Beard, ORS witness A. Randy Watts and ORS witness Sharon G. Scott. Ms. Scott’s Settlement testimony also includes six exhibits. All parties in this docket – the FEA, SCEUC, Wal-Mart, Kroger, Frank Knapp, Jr., ORS and SCE&G – are signatories to the Settlement.

The Commission held a hearing on this matter on October 31, 2007 with the Honorable G. O’Neal Hamilton, Chairman, presiding. The Settlement with Appendices A and B and Attachment A was accepted into the record as composite Hearing Exhibit 1. Composite Hearing Exhibit 2 consisted of the prefiled direct testimony and exhibits of SCE&G witnesses Kevin B.

Marsh, Stephen A. Byrne, Julie M. Cannell, Jimmy E. Addison, James E. Swan, IV, and John R. Hendrix.

SCE&G witnesses Kevin B. Marsh, Stephen A. Byrne, Jimmy E. Addison, James E. Swan, IV, and John R. Hendrix; SCEUC witness David Beard; and ORS witnesses Sharon G. Scott and A. Randy Watts appeared, gave summaries of their testimonies and answered questions from the Commission. SCE&G witness Marsh testified as to the Company's operations and infrastructure. SCE&G witness Byrne testified as to the Company's generation operations and plans to add new capacity. SCE&G witness Addison testified as to the Settlement return on equity, the financial posture of the Company, and the Company's request to extend the time period for which accelerated depreciation may be applied to its Cope Generation Station. SCE&G witness Swan testified as to accounting matters. SCE&G witness Hendrix testified as to the Company's cost of service and rate design. SCEUC witness Beard testified to support the Settlement on behalf of SCEUC members. ORS witness Scott testified as to the Settlement adjustments and Settlement audit report; and ORS witness Watts testified as to ORS's examination of SCE&G's Application as well as the Settlement. All witnesses provided testimony supporting the Settlement.

The Parties represented to the Commission that they had engaged in discussions on the issues of this case and that following the discussions, the Parties determined that their interests and ORS determined that the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in this matter. The testimony demonstrated that pursuant to the Settlement, the Parties stipulated to an increase of the Company's retail revenues

in the amount of \$76.9² million and a return on equity of 11.00 percent. The Parties agreed that a retail revenue increase in the amount of \$76.9 million would have resulted in a return on equity of 10.7% during the test year.³ The only return on equity agreed to by the Parties in the Settlement, however, was 11.00 percent. The Parties also agreed to the accounting exhibits in Attachment A to ORS witness Scott's Settlement testimony as setting forth the Company's operating expenses, pro forma adjustments, depreciation rates, rate base, return on equity, revenue requirement and rate of return on rate base. Specifically, the Parties agreed to an increase in depreciation rates for automated meter reading assets ("AMRs") from 1.83% to 2.46%. Lastly, the Parties supported SCE&G's request to extend the time period to December 31, 2015 during which time it may apply accelerated depreciation to its Cope Generating Station in cases where the Company determines that revenue and expense levels warrant.

After having heard the testimony of the witnesses and based on the Commission's review of the Settlement, the Settlement exhibits and the testimony and exhibits submitted during the hearing, the Commission adopts as a comprehensive compromise settlement on all issues all terms and provisions of the Settlement as just and reasonable. This includes the accounting adjustments, the increase of the Company's retail revenues in the amount of \$76.9 million, a return on equity of 11.00 percent, approval of the increase in depreciation rates for AMRs, and approval of the extension of time until December 31, 2015 for the period over which the Company may apply the accelerated capital recovery mechanism to its Cope Generating Station that was originally approved by the Commission in Docket No. 1999-389-E, Order No. 1999-

² This is a rounded revenue number. The precise additional revenue number is \$76.924 million and is reflected in Settlement Audit Exhibit SGS-1.

³ The test year covered the period of April 1, 2006 through March 31, 2007.

655. The Commission also specifically adopts as just and reasonable the rates, rate schedules, and terms and conditions set forth in the Settlement Appendix B.

IT IS THEREFORE ORDERED THAT:

1. The Settlement entered into by all of the Parties to this docket is incorporated herein as Order Exhibit No. 1 and is adopted and approved as just and reasonable.

2. SCE&G shall implement the rates, charges, terms and conditions referenced in attached Order Exhibit No. 1 for service rendered on and after January 1, 2008.

3. The return on equity of eleven percent (11%) agreed upon in the Settlement is adopted as just and reasonable and in the public interest.

4. The net increase in SCE&G's retail electric revenues on a pro-forma test-year basis of \$76.9 million as agreed upon in the Settlement is adopted as just and reasonable and in the public interest.

5. The increase in depreciation rates for AMRs from 1.83% to 2.46% as agreed upon by the Parties is just and reasonable and in the public interest and shall be used by the Company until further order by the Commission.

6. The Parties shall abide by all terms of the Settlement.

7. The approval of the extension of time until December 31, 2015 for the period over which the Company may apply the accelerated capital recovery mechanism to its Cope Generating Station that was originally approved by the Commission in Docket No. 1999-389-E, Order No. 1999-655 is hereby granted.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

G. O'Neal Hamilton, Chairman

ATTEST:

Robert C. Moseley, Vice Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2007-229-E

IN RE:

| | | |
|--|---|-----------------------|
| Application of South Carolina Electric and |) | |
| Gas Company for an Adjustment in Its |) | CERTIFICATE OF |
| Electric Rates and Charges |) | SERVICE |

This is to certify that I, Pamela J. McMullan, have this date served one (1) copy of the **PROPOSED ORDER** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

K. Chad Burgess, Esquire
Catherine D. Taylor, Esquire
South Carolina Electric and Gas Co
1426 Main Street, MC 130
Columbia, SC 29201

Mitchell M. Willoughby, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, SC 29202

Belton T. Zeigler, Esquire
Haynsworth Sinkler Boyd, P.A.
Post Office Box 11889
Columbia, SC 29211

Kurt J. Boehm, Esquire
Michael L. Kurtz, Esquire
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH, 45202

Audrey Van Dyke, Counsel for Sec. of the Navy
Department of Navy
720 Kennon St., S.E. Building 36, Room 136
Litigation Headquarters
Washington Navy Yard, DC, 20374

Khojasteh (Kay) Davoodi, Director, Utility Rates and Studies Office
Department of Navy
Naval Facilities Engineering Command
1322 Patterson Avenue, SE
Washington Navy Yard, DC, 20374-5065

Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC, 29205

J. David Black, Esquire
Nexsen Pruet Adams Kleemeier, LLC
Post Office Drawer 2426
Columbia, SC, 29202

Eric J. Krathwohl, Esquire
Rich May, P.C.
176 Federal Street, 6th Floor
Boston, MA, 02110

Frank Knapp, Jr.
1717 Gervais Street
Columbia, SC 29201

A handwritten signature in black ink, appearing to read 'PJM', is written over a solid horizontal line.

Pamela J. McMullan

November 21, 2007
Columbia, South Carolina